

ALTERNATIVE FORECASTS

Global Insight has assigned a 60% probability of occurrence to its July 2007 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 2.1% in 2007, 2.8% in 2008, 3.2% in 2009, and 2.8% in 2010;
- U.S. nonfarm employment grows 1.3% in 2007, 1.1% in 2008, 1.5% in 2009, and 1.3% in 2010;
- the annual U.S. civilian unemployment rate remains below 5.0% through 2010;
- consumer inflation is 2.5% in 2007, 1.8% in 2008, 1.9% in 2009, and 1.8% in 2010;
- the current account deficit is \$786 billion in 2007, \$768 billion in 2008, \$770 billion in 2009, and \$762 billion in 2010; and
- the federal unified budget deficit is \$180 billion in 2007, \$214 billion in 2008, \$238 billion in 2009, and \$230 billion in 2010.

OPTIMISTIC SCENARIO

Global Insight's *Optimistic Scenario* has been assigned a 20% probability of occurrence. In this scenario, the economy rides the crest of a perfect storm of positive influences that carries it higher and further than in the baseline case. In the *Optimistic Scenario*, business fixed investment is stronger, peaking at 10.9% of GDP in 2009, versus just 10.5% in the baseline case. This investment yields faster total factor productivity growth. The enhanced productivity results in higher economic and employment gains and lower inflation and budget deficits. The higher productivity also boosts the dollar. The combination of productivity gains and the stronger dollar help keep a lid on inflation. Residential investment is also stronger in this scenario, with housing bouncing back stronger in 2008 and maintaining a higher level throughout the forecast period. Exports benefit from faster foreign economic growth, and advance quicker than in the baseline case despite the stronger dollar. This scenario also assumes oil prices are \$8 to \$9 per barrel lower than in the baseline case.

Under these assumptions, the economic outlook is much brighter. The current slowdown proves temporary, as real GDP growth rebounds to 4.5% by the end of this year, compared to the baseline's 2.6%. For 2007 overall, real GDP growth comes in at 3.0%, versus 2.3%. Real output growth is also stronger next year, 3.9% compared to 3.0%. Despite this stronger growth, consumer price inflation remains safely within the Federal Reserve's 1-2% tolerance band through 2010. In the *Baseline Scenario*, inflation hovers near the upper end of this band. The lower inflation rate allows the nation's central bank to keep the federal funds rate below its baseline value.

The stronger national performance brightens the outlook for the Gem State's economy. Idaho nonfarm employment grows marginally faster over the next three years and slightly slower in 2010. Despite the slower growth in the forecast's terminal year, Idaho is forecast to have 1,701 more jobs in 2010 compared to the baseline, or about a 0.24% advantage. The nongoods-producing sector accounts for most of this gain (1,294 jobs), while the goods-producing sector accounts for the other 357 jobs. Idaho nominal personal income is lower than in the baseline in each year of the forecast. By 2010, it is about \$1 billion lower than in the baseline. However, this gap narrows significantly in 2010 when the personal income measures are adjusted for inflation. Thanks to the lower inflation in the *Optimistic Scenario*, the difference is just \$39 million. It bears repeating that the improved inflation outlook is largely due to the stronger productivity growth in the *Optimistic Scenario*.

IDAHO ECONOMIC FORECAST

BASELINE AND ALTERNATIVE FORECASTS

JULY 2007

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
U.S. GDP (BILLIONS)												
Current \$	13,860	14,523	15,287	16,036	13,892	14,657	15,419	16,151	13,808	14,314	15,099	15,910
% Ch	4.6%	4.8%	5.3%	4.9%	4.9%	5.5%	5.2%	4.7%	4.2%	3.7%	5.5%	5.4%
2000 Chain-Weighted	11,657	11,981	12,363	12,715	11,684	12,141	12,581	12,972	11,609	11,703	11,961	12,237
% Ch	2.1%	2.8%	3.2%	2.8%	2.4%	3.9%	3.6%	3.1%	1.7%	0.8%	2.2%	2.3%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	46,699	49,317	52,561	56,459	46,601	48,941	51,930	55,454	46,995	50,696	54,882	59,861
% Ch	5.7%	5.6%	6.6%	7.4%	5.5%	5.0%	6.1%	6.8%	6.4%	7.9%	8.3%	9.1%
U.S. (Billions)	11,544	12,166	12,875	13,612	11,553	12,239	12,953	13,663	11,554	12,150	12,835	13,619
% Ch	6.0%	5.4%	5.8%	5.7%	6.1%	5.9%	5.8%	5.5%	6.1%	5.2%	5.6%	6.1%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	39,895	41,387	43,292	45,653	39,883	41,435	43,351	45,614	40,022	41,887	44,001	46,682
% Ch	3.5%	3.7%	4.6%	5.5%	3.4%	3.9%	4.6%	5.2%	3.8%	4.7%	5.0%	6.1%
U.S. (Billions)	9,862	10,210	10,605	11,007	9,887	10,362	10,813	11,239	9,840	10,039	10,291	10,621
% Ch	3.7%	3.5%	3.9%	3.8%	4.0%	4.8%	4.4%	3.9%	3.5%	2.0%	2.5%	3.2%
TOTAL NONFARM EMPLOYMENT												
Idaho	654,112	662,943	677,691	698,348	654,126	664,487	680,051	700,049	653,342	659,515	677,333	701,115
% Ch	2.4%	1.3%	2.2%	3.0%	2.4%	1.6%	2.3%	2.9%	2.3%	0.9%	2.7%	3.5%
U.S. (Thousands)	137,987	139,541	141,572	143,456	138,069	140,427	142,881	144,825	137,758	137,837	138,698	140,261
% Ch	1.3%	1.1%	1.5%	1.3%	1.4%	1.7%	1.7%	1.4%	1.2%	0.1%	0.6%	1.1%
GOODS-PRODUCING SECTOR												
Idaho	121,279	117,110	117,611	119,143	121,365	118,293	118,781	119,550	120,042	111,372	114,016	117,127
% Ch	-0.8%	-3.4%	0.4%	1.3%	-0.8%	-2.5%	0.4%	0.6%	-1.9%	-7.2%	2.4%	2.7%
U.S. (Thousands)	22,416	22,134	22,159	22,343	22,426	22,350	22,588	22,827	22,430	21,656	21,085	20,937
% Ch	-0.7%	-1.3%	0.1%	0.8%	-0.7%	-0.3%	1.1%	1.1%	-0.6%	-3.4%	-2.6%	-0.7%
NONGOODS-PRODUCING SECTOR												
Idaho	532,833	545,832	560,080	579,205	532,761	546,194	561,270	580,499	533,300	548,143	563,317	583,987
% Ch	3.1%	2.4%	2.6%	3.4%	3.1%	2.5%	2.8%	3.4%	3.2%	2.8%	2.8%	3.7%
U.S. (Thousands)	115,571	117,407	119,413	121,113	115,643	118,077	120,293	121,998	115,328	116,181	117,612	119,324
% Ch	1.7%	1.6%	1.7%	1.4%	1.8%	2.1%	1.9%	1.4%	1.5%	0.7%	1.2%	1.5%
SELECTED INTEREST RATES												
Federal Funds	5.3%	5.3%	5.3%	5.3%	5.3%	5.2%	5.0%	5.0%	5.6%	7.2%	6.7%	6.1%
Bank Prime	8.3%	8.3%	8.3%	8.3%	8.3%	8.2%	8.0%	8.0%	8.6%	10.2%	9.7%	9.1%
Existing Home Mortgage	6.6%	6.9%	7.1%	7.2%	6.6%	6.7%	6.8%	6.9%	6.9%	8.3%	8.2%	7.9%
INFLATION												
GDP Price Deflator	2.4%	1.9%	2.0%	2.0%	2.4%	1.5%	1.5%	1.6%	2.5%	2.8%	3.2%	3.0%
Personal Cons Deflator	2.2%	1.8%	1.9%	1.9%	2.0%	1.1%	1.4%	1.5%	2.5%	3.1%	3.1%	2.8%
Consumer Price Index	2.5%	1.8%	1.9%	1.8%	2.2%	1.0%	1.4%	1.5%	2.8%	3.1%	3.0%	2.8%

Forecast Begins the SECOND Quarter of 2007

PESSIMISTIC SCENARIO

The *Pessimistic Scenario* has been assigned a 20% probability of occurrence. Higher inflation is a key lever that differentiates this scenario from the baseline case. Soaring oil prices, a sliding dollar, and tightening labor markets increase price pressures. Another reason to believe prices will accelerate is there may be less spare production capacity in the world than is perceived. Rapid technological advances and high oil prices may have rendered obsolete much of the idled capacity that remains on the books. This alternative forecast also assumes the dollar weakens as foreign investors flee the greenback over concerns of the huge U.S. trade deficit. The falling dollar raises prices Americans pay for imports, which further fuels inflation. The economic outlook is also dampened by increased pressure on interest rates. Two are most noteworthy. Foreign investors demand higher returns on U.S. investments to compensate for the dollar's slide. In addition, the Federal Reserve tightens more aggressively than in the baseline case to fight inflation. The anticipated higher interest rates take a greater toll on the already weak housing sector. Housing starts drop to 1.17 million units in 2008. The median price of existing homes drops nearly 10% below the baseline price in late 2007. Capital spending also retreats. Beginning in the third quarter of 2007, spending on equipment and software declines for five straight quarters.

Between the higher interest rates and persistently high energy prices, consumer confidence suffers. As a result, consumers rein in their discretionary spending, causing the U.S. economy to slow. Hiring falters, which causes the nation's unemployment rate to climb. The nation's central bank is forced to choose between fighting inflation and encouraging economic growth. It is assumed to battle inflation. This puts upward pressure on interest rates, which causes debt-burdened consumers to retrench further. The economy nearly sinks into a recession, with GDP growth at just 1.6% in 2007 and 1.0% in 2008. The Federal Reserve's policy eventually succeeds and inflation stabilizes. However, the ground lost relative to the baseline scenario is not made up over the forecast period.

Ironically, Idaho's economy actually improves relative to the baseline case. This counterintuitive result stems from the lower productivity growth in this scenario. The lower productivity growth leads to faster unit labor cost growth. The higher unit labor costs translate to higher wages, which lead to higher income. Since Idaho nongoods-producing employment is largely a function of income, it buoys this sector's employment. As a result, there are 4,782 more nongoods-producing jobs in 2010 compared to the baseline. The goods-producing sector behaves more intuitively, with employment down 2,016 jobs in 2010 from its baseline counterpart. It is lower because, unlike the nongoods-producing sector, employment is not propped up by higher income, but by industrial production. In aggregate, Idaho nonfarm employment is 2,767 higher in 2010 compared to the baseline. The outlook for personal income is also higher than in the baseline case. As the table shows, both Idaho nominal and real personal incomes are above their baseline counterparts in 2010. Specifically, nominal personal income is up \$3.4 billion and real income is up \$1.0 billion.